



ArcelorMittal

ArcelorMittal Hunedoara S.A.

**REPORT OF THE
BOARD OF DIRECTORS**

regarding the Financial Statements for the year 2018, issued in accordance with the Ministry of Public Finance Order no. 1802/2014 for the approval of the accountancy regulations in compliance with the EU directives, with subsequent amendments

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General Information

NAME	ArcelorMittal Hunedoara S.A. (hereinafter referred to as "the Company")
	<p>In 2003, the Company's majority stake was purchased by ArcelorMittal Holdings AG (formerly known as LNM Holdings NV, LNM Holdings AG and Mittal Steel Holdings AG), under the privatization agreement no 49/28.10.2003 concluded with the Authority for Privatization and Management of State Ownership ("APAPS"), currently the Authority for State Assets Recovery ("AAAS").</p> <p>Pursuant to the above mentioned, the name of the Company was successively changed from S.C. Siderurgica Hunedoara S.A. to S.C. Ispat Siderurgica S.A., S.C. Mittal Steel Hunedoara S.A. and ArcelorMittal Hunedoara S.A.</p>
COMPANY TYPE	Joint stock Company incorporated in 1991
EQUITY	<ul style="list-style-type: none"> • RON 397,132,456 subscribed and paid in capital • 198,566,228 issued shares • Shares with a nominal value of RON 2.00 per share
RECORDINGS	<ul style="list-style-type: none"> • Registered at the Trade Registry of the Deva court, under number J20/41/1991 • Unique Registration number 2126855
MAIN ACTIVITY	<p>Production of ferrous metals under primary form and under form of ferro alloys. (CAEN code 2410)</p> <p>The Company specializes in production of round billets and europrofiles together with mining sections and angles.</p>
TRADING MARKET	BVB AeRO from 26.05.2015
FINANCIAL AUDITOR	Deloitte Audit S.R.L., Bucharest
SHARES & SHAREHOLDERS' REGISTRY	Depozitarul Central S.A. Bucharest
REGISTERED OFFICE	DJ687 no.4, Hunedoara, postal Code 331111, Romania

1. ANALYSIS OF THE ACTIVITY OF ARCELORMITTAL HUNEDOARA S.A.

Health & Safety

ArcelorMittal Hunedoara is committed to zero tolerance on Safety. There was no fatality and zero LTIs during 2018. During the year we have done extensive Take Care Training programme. Safety Leadership training for middle management was also undertaken and continuing as planned. Actions were taken to demonstrate leadership through “engagement” & “consequence management”. Strong visual communication are being put in place.

Operations and Business Performance

- *Production and Shipment Volume*

Crude steel production was 264K in 2018, 23kt lower than the last year due to stoppages related to revamping of dedusting facility during the year. The market was challenging during the year and the Company succeeded in entering new markets but the production shortfall lead to a shipment fall compared to last year. During the year the Company has successfully developed some more ranges of profiles and semis and have also expanded in the natural market segment.

The sales value increased by 4% over previous year mainly due to higher prices.

- *Net Result*

The increase of the sales price was partly off-set by the scrap price increase. In addition, electricity prices were at alarming high level. Electron prices of electricity increased from 176 Ron/MwH in first half 2018 to 265 Ron/mwh in second half of the year, i.e. 50% increase, making it difficult to be cost competitive. Several consumables prices went up by two to three times. In addition to the prevailing Price-Cost Squeeze scenario, the Company faced some challenges in operations in the second half of the year. Various continuous improvement plan was implemented and it helped the Company. Operating result remained at negative 31 million Ron in both the years. However, net results deteriorated to negative 46 million mainly due to higher depreciation and forex losses during the year.

- *Fixed Cost optimisation*

The Company has successfully optimized fixed cost during the year while ensuring reliability of the assets and judicious use of resources. However, the manpower and subcontractor workforce cost has risen by 9% due to the Minimum Salary Act and the grossing up of tax effect due to the change in the law of taxation.

Business Outlook for 2019

As we look forward, it is important that the Shareholders see the Company grow through a set of actions that the Company makes for creating value over time.

As a result, three priorities have been set forth as follows:

Priority 1: Further improve safety performance

- No fatality
- LossTime Injury frequency rate targeted below 0.6
- Reduce number of serious occurrences

Priority 2: Achieve financial targets

- Achieving the targeted profitability.
- Achieving the cash flow through optimal working capital management
- Maintaining or improving the Margin over scrap in sales prices.
- Achieve process excellence through continuous improvement plan.

Priority 3: Walking though the Strategic Plan

- Cost optimization at all levels.
- Volume growth.
- Increasing share of high added value products..
- Innovation for longterm customer needs.

Risk Management

The main risks the Company is exposed to are: market risk, credit risk, liquidity risk, operational risk, risk related to taxation and economic environment risk.

Market risk - includes exchange rate risk, interest rate risk and price risk.

Exchange rate Risk

Currency risk is the risk that the value of a monetary asset will fluctuate due to variations in exchange rates.

In 2018, the Company carried out business transactions both in Romanian currency (RON) and foreign currencies. The abnormal currency fluctuations during the year had a big impact in the profitability of the market.

Interest rate risk

The Company's income and cash flows from operations are substantially independent from the changes in the market interest rates.

Price risk

Price risk is the risk that the value of a product will fluctuate due to changes in market prices. Considering the fact that the Company has a large range of products sold in different geographical regions both national and international, it was favorably affected by price risk in 2018.

Credit risk

Credit risk is the risk that the customers will fail to pay for the products sold to them, which will cause the Company to record a financial loss. Considering the fact that, other than the group companies all customers of the Company are covered by credit insurance. Where the Company

pays in advance, they are covered by bank guarantees and letter of credits. All these minimize the credit risk for the Company.

Liquidity risk

Liquidity risk is associated to difficulties encountered by the Company in obtaining the funds necessary to fulfill outstanding commitments.

The Company vigorously monitors the working capital situation and ensures collection or rotation of inventory in due time in order to meet the payment obligations timely.

Operational risk

Operational risk represents the likelihood to incur direct or indirect losses due to a large number of factors associated with all the processes of the business or other external factors (other than credit, market and liquidity risk).

The Company's objective is to manage operational risk in a balanced way to foster growth and limit financial losses

Tax Risk

During the year, the Company made various transactions with affiliates. The pricing for the transactions have been made at arms' length following the required norms and methods. In case of tax audits, the Company is ready to produce all documents that have been prepared to arrive at those prices. Based on this, the Company does not estimate any potential risk related to transfer pricing policy to create any provision. However, interpretation and the practical implementation of tax regulations may vary and there may arise situation, that the tax authorities could adopt a position different from that of the Company's.

Investments and CAPEX

The Company has spent a significant amount of RON 25,807,930 in 2018. Among these, are revamping of Dedusting plant, investments made in rolls, Static Var Compensator project, revamping of rolling line and furnace modernization in rolling mill, transfer car modernization, scrapyard extension and others. These investments catered to environmental norms, ensured reliability of the steelshop and rolling mill and also contributed to cost reduction measures.

Human Resources

End of 2018 total employees were 643 compared with 637 in 2017

The structure of education among our employees is presented below:

Higher Education: 138

Medium Education: 292

General Education: 213

The employment relationships are regulated by the Individual Labor Contracts and by the Collective Labor Contract. The Collective Labor Contract was concluded for two year until 23.08.2019 and was registered with the Hunedoara County Labor Inspectorate under No15284 /128/23.08.2017

In December 2017 because of Romanian Government Decision OUG No 79 /2017, to transfer part of taxes from the employer to employees the Collective Labor Contract was modified by Additional Act signed by administration and trade union in 19th December 2017 and registered with the Hunedoara County Labor Inspectorate under No 15284/128/23.08.2017/23.01.2018

ArcelorMittal Hunedoara takes great pride in the commitment, competence and continuous efforts shown by its workforce in all realms of business, the Company continues to take new initiatives to further align its group HR policies to meet the growing needs of its business.

People development continues to be key focus area at ArcelorMittal Hunedoara . The Company organizes regular Management Development Programs both at the group level and unit level, in the form of workshops and training sessions for both senior and junior management. In 2018 we have first 12 electromechanics - graduates (young people 17-18 years of age) of Professional School organized, in collaboration with Matei Corvin Technical College and County School Inspectorate Hunedoara ;

In 2018 the Company succeeded to replace 49 FTEs in this tough labour market.

We continue our collaboration with Hunedoara University for special training programs on job for future engineers. In 2018 we succeed together to obtain mandatory legal accreditation for organizing in Hunedoara the Postgraduate Course “ Modern Technologies for Obtaining Steel & Materials “ to have a superior specialization solution dedicated for ArcelorMittal Hunedoara White Color employees for today and especially for the future.

The Industrial relations of the company remain cordial and peaceful through the year. The Company has not lost a single man-day in the Company site. The company provides a positive working environment and offers equal opportunities to all of its employees.

Environment

The Company produces a wide range of steel products which meet all the current requirements of the important markets, both from the point of view of quality of products & services, and environmental protection.

When we speak about steel we have to think about it as environmentally friendly as it is fully recyclable.

Moreover, it can be recycled indefinitely without affecting the environment.

We all understand the importance of protecting the environment not only because developing steel industry is directly dependant on a good management of natural resources, but also because protecting the environment is essential for the current standard of life of humankind, as well as for the future generations. This is why besides producing steel we try to obtain a balance among economic and social performances and environmental protection.

These ideas are supported by the environmental policies. The Company is engaged in managing its goods responsibly, focusing on producing high quality products that do not affect the environment, as well as maintaining a low impact upon the environment by re-using and recycling them.

Another goal of the Company is to improve continuously the environment performances, by monitoring systematically the environment factors as well as an efficient usage of natural, energy and soil resources.

This will strengthen the performance of the Company's business and it will offer a sustainable future to all involved parties, employees, clients, suppliers, shareholders or interested parties.

We must be aware of the fact that protecting the environment is not just the responsibility of some of us, but of all.

The Company has the Integrated Environmental Authorization no 2/02.07.2015, revised on 09.11.2016 and valid until 22.07.2025, issued by Hunedoara Environmental Protection Agency.

2. SHAREHOLDERS' INFORMATION

As at 31 December 2018, ArcelorMittal Hunedoara S.A. had 198,566,228 shares, and the percentage wise holdings are given below:

The nominal value of the share was RON 2.00

Shareholders	Value of shares	%
ArcelorMittal Holdings AG	383,308,848	96,52
SIF Banat Crisana	11,842,648	2,98
Other shareholders	1,980,960	0,50
Total	397,132,456	100

3. SUBSIDIARY

The Company does not have any subsidiary.

4. CORPORATE GOVERNANCE

The Board of Directors

By OGMS Resolution dated 28.07.2016, Mr. Tapas Rajderkar was appointed as Company's Board member and by the Board Resolution no 1/09.08.2016, Mr. Rajderkar was appointed President of the Board of Directors, the composition of the Board of Directors being the following:

1. Mr. Tapas Rajderkar – President of the Board
2. Mr. Bernhard Klaus Gabel, Board Member;
3. Mr. Amit Kumar, Board member;

The activity of the Board of Directors:

During the year 2018 a total number of 6 Board meetings took place in accordance with the statutory provisions. The presence of Board members at the meetings in 2018 was in accordance with the legal requirements. All meetings of 2018 were chaired by the Chairman of the Board of Directors.

Executive Management of the Company

The executive management of the Company during 2018 was composed of the following managers:

General Manager – Doru-Ion Petrescu

Finance Manager – Amit Dasgupta

Steel Shop Manager – Octavian Moisa

Rolling Mill Manager – Ioan Conache

Purchase Manager – Ajay Singh

Investments & Services Manager – Adrian Toma

Human Resource Manager – Redinciuc Dorin

Sales Manager – Adrian Ciocan

Safety Manager – Adrian Ulmean

Internal Control and Risk Management

Internal Control

The Company's internal control system comprises audit and compliance by ArcelorMittal in-house Internal audit Division supplemented by management governance cell. The internal auditors independently evaluate the adequacy of internal controls and audit majority of the business areas. Independence of the audit and compliance is ensured by the direct reporting of Internal Audit Division to the group ArcelorMittal Audit Committee. The Company's management governance cell ensures the following checks and controls are in place.

Internal control inside the Company checks:

- Compliance with Romanian regulations
- Following the management decisions
- Good functioning of internal activity
- Efficient use of resources
- Prevention and control of not reaching set targets
- Supervision of management accounting and financial results of the entity

Following the control actions, no breach of the law, regulations and procedures was signaled. Proposals and recommendations for improvement working procedures were made during the control activities.

Risk Management

A disciplined approach to risk is important in a diversified organization like the Company's in order to ensure that we are executing according to the Company's strategic objectives and that we only accept risk for which we are adequately compensated. We evaluate risk at the individual transaction level, and evaluate aggregated risk at the customer, industry, geographic and collateral-type levels, where appropriate.

Risk assessment and risk management are the responsibility of management. The ArcelorMittal Group has defined guidelines with a focus on the most significant risks facing the Company, including strategic, operational, financial and legal and compliance risks. At the end of each quarter, the Risk committee of the company develop a list of major risks along with the action plan to mitigate such risks. The management has a dedicated quarterly meeting with the risk Committee to review and discuss specific risk topics in greater detail.

Compliance Policies and Guidelines

The Company has adopted during the past years the ArcelorMittal Group Compliance Policies, Procedures and Guidelines, including, among others, the Code of Business Conduct, Antitrust Rules, Insider Dealing, Anti-Corruption Procedure, Human Rights Policy, Economic Sanctions Guidelines, Conflict of Interest, Data Protection, which include a series of mandatory rules for management and employees in order to protect the Company's and its shareholders' interest and market integrity. The Compliance Policies provide clear rules including, but not limited to compliance with legal requirements and internal procedures, anti-corruption guidelines, conflict of interest, information privacy, inside information, prohibited transactions, insiders' trading, etc.

Corporate Social Responsibility

The Company is committed to participate and support community projects. During 2018 the following projects were funded:

- Donation of medical equipments to local hospital;
- Part sponsoring of sports events for children to promote health awareness;
- Part sponsorship of events to Local University for motivating engineering students.

5. FINANCIALS

Accounting

According to art. 10 (2) of the Law 82/1991, republished in 2008, as subsequently amended ("Law no 82/1991"), the accounting is organized in a distinct department run by a Finance Director and a Chief Accountant.

For the purpose of preparing the balance sheet, all elements of asset and leased goods were counted as per Ministry of Public Finance Order no. 1802/2014, as subsequently amended.

The Balance Sheet was prepared on the basis of the trial balance of the synthetic accounts of 31.12.2018, put in agreement with the balances in the analytical balances, concluded after recording all the documents regarding the financial accounting operations pertaining to 2018.

Reserves

Reserves amount to 45,358,842 RON, of which 2,357,116 RON are legal reserves made according to Law no. 31/1991, and 1,282,176 RON other reserves. In addition, there is Revaluation reserve amounting to 41,719,550 Ron, which represents the revaluation of fixed assets made in 2013 and earlier years.

Provisions

The provisions made as at 31.12.2018 amount to 3,072,872 RON of which 1,701,498 RON represents provisions for pensions and other similar liabilities.

Liabilities

The total current liabilities of the Company amount to 314,208,601RON, of which 191,602,974 RON are liabilities to ArcelorMittal group companies, 117,504,967 RON to other suppliers of raw materials, materials and services, 5,001,105 RON to the State Budget and Social Insurance Budget.

Turnover

In 2018, the Company's turnover amounted to 633,651,633 RON and in 2017 was 609,959,447 Ron.

The table below presents some indicators drawn from the analysis of the assets, liabilities, profit and loss and cash flows:

Presentation of the financial ratios

	2017	2018
<i>Liquidity Indicator</i>		
Current ratio	1.26	1.01
Acid test ratio	0.78	0.55
<i>Risk indicators</i>		
Gearing ratio (%)	108	147
<i>Activity ratios</i>		
Stock Rotation ratio	7.22	5.96
Number of days of stock (days)	84.3	102.0
Stock rotation customer (days)	63.4	60.2
Stock rotation supplier (days)	87.1	91.6
Rotation of fixed assets (no. rotations)	1.97	2.02
Rotation of total assets (no. rotations)	1.08	1.01
<i>Profitability Ratios</i>		
Return on Equity (%)	(18%)	(25%)
Margin on Sales (%)	(5%)	(5%)
Profit/(Loss) per share (RON)	(0.21)	(0.23)

Profit & Loss Account

In RON

Indicators	2017	2018
Turnover	609,959,447	633,651,633
Operating Result	(31,400,496)	(31,410,877)
Financial charges	(9,465,625)	(14,706,392)
Net Income/(Loss)	(40,866,122)	(46,117,269)
Net Profit/(Loss)	(40,866,122)	(46,117,269)

Balance Sheet

In RON

PARTICULARS	2017	2018
FIXED ASSETS	309,471,755	314,177,414
Out of which:		
Intangible assets	2,498,808	1,485,931
Property, Plant and Equipment	306,972,947	312,648,555
FINANCIAL ASSETS	39,328	42,928
CURRENT ASSETS	253,096,932	316,447,088
Out of which:		
Inventories	96,805,482	141,730,557
Receivables	145,360,047	163,161,966
Petty cash and bank account	10,532,445	11,141,191
Prepaid expenses	398,958	413,374
TOTAL ASSETS	562,608,015	630,624,502
Equity	172,996,731	127,103,029
Out of which:		

PARTICULARS	2017	2018
Share Capital	397,132,456	397,132,456
Own shares	0	0
Reserves	48,129,868	45,358,842
Retained Earnings	(231,399,472)	(269,271,000)
Result for the year	(40,866,122)	(46,117,269)
<u>CURRENT LIABILITIES</u>	200,384,567	314,208,601
Out of which:		
Other liabilities, tax liabilities, social insurance liabilities	8,604,771	11,166,240
Trade payables	191,779,796	303,042,361
<u>Long Term payables</u>	186,388,000	186,240,000
<u>Provisions</u>	2,838,717	3,072,872
TOTAL LIABILITIES	562,608,015	630,624,502

6. OTHER SIGNIFICANT INFORMATION

The Company received two audit reports from ANAF vide address nr.1596AIF/ 08.08.2016 and 1600AIF/08.08.2016 related to the period covering second half of 2010 upto end of March, 2016. The total reimbursement claimed by the Company was 16,429,613 Ron against which ANAF disallowed 11,757,182 Ron in their audits. Both the Inspection Reports were challenged in the court of law by the Company in September, 2016 and the case is pending in court. In addition ANAF charged penalty of 3,819,005 Ron, out of which the Company paid 1,023,683 Ron and the difference was waived by the authority as per Ordinance 44/2015.

7. SUBSEQUENT EVENTS

As a part of remedy for the Net Assets falling short of half of share Capital during the year, the Shareholders have agreed to reduce the nominal price per share from 2 Ron to 1.25 Ron vide Annual General Meeting held on October 29th 2018. After all the formalities, the effective date of the Share Capital reduction was on 13/02/2019. The total value of Share Capital reduction was 148,924,671 Ron.

8.

9. ACKNOWLEDGEMENT

The Company's Directors express their appreciation to the executive management, employees, unions, customers, suppliers and other stakeholders for their contribution and support in ensuring an all round operational performance during the year 2018 and wish to express their sincere thanks towards all concerned.



Chairman of the Board

Tapas Rajderkar

22nd March, 2019